



Auditor of Public Accounts
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Edelen Releases Audit of Martin Clerk's Fee Account

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the 2011 financial statement of Martin County Clerk Carol Sue Mills. State law requires the auditor to conduct annual audits of county clerks and sheriffs.

The audit found that the clerk's financial statement presents fairly the revenues, expenditures, and excess fees of the Martin County clerk in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit will be referred to the Kentucky State Police.

The audit contains the following comments:

The County Clerk did not remit all deed transfer tax payments to the fiscal court. The County Clerk Collected deed transfer tax in accordance with KRS 142.050, however, she did not remit the total due to the county. The county is due an additional \$4,580 for deed transfer tax for calendar year 2011. KRS 142.050(4) states, "The county clerk shall collect the amount due and certify the date of payment and the amount of collection on the deed. The county clerk shall retain five percent (5%) as his fee for collection and remit the balance every three (3) months to the county treasurer, who shall deposit the money in the county general fund." Failure to make these payments does not allow the county to utilize these funds. We recommend the County Clerk pay \$4,580 to the county treasurer. We also recommend quarterly deed transfer tax payments be made as required in the future.

County Clerk's response: A payment in the amount of \$4,580 paid by check to Martin County Fiscal Court on 10-26-12.

The County Clerk should prohibit the practice of cashing checks from office funds. During our audit, we noted that personal checks and/or third party checks were cashed from the clerk's official bank account. When this occurs, the receipts deposited do not agree with the original form of cash and checks received by the clerk's office for daily collections. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements that include depositing receipts intact on a daily basis and reconciling deposits to batched receipts. The clerk should have deposited receipts intact (i.e., in the same form as they were collected) as required by the State Local Finance Officer. Furthermore, the practice of cashing checks whether personal or third party should have been prohibited as such unrelated receipt transactions distorts the cash audit trail.

County Clerk's response: We no longer practice cashing personal checks for anyone for any reason.

The County Clerk's office lacks adequate segregation of duties. The County Clerk's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The Clerk's bookkeeper has access to cash, works up the daily bank deposit, posts to the receipts and disbursements ledgers and reconciles the bank account. These control deficiencies could adversely affect the Clerk's ability to record, process, summarize, and report accurate financial information. Good internal controls dictate the same employee should not receive payments, make deposits, and prepare checks for payment.

If, due to a limited number of staff, it is not possible to segregate duties strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the County Clerk could provide the oversight. If the County Clerk does implement compensating controls, these should be documented on the appropriate source documentation. Examples of possible compensating controls include the following:

- The Clerk could periodically compare the daily checkout sheet to the deposit slip and receipts ledger. Any discrepancies should be resolved and the review should be documented by initialing and dating the deposit ticket, the daily checkout sheet, and the receipts ledger.
- The County Clerk could compare total collections per monthly and weekly reports to the daily checkout sheets. Any discrepancies should be resolved and the review should be documented by initialing and dating the report.
- The County Clerk could compare cancelled listed on the bank statement to the amounts recorded in the disbursements ledger. Any discrepancies should be resolved and the review should be resolved and the review should be documented by initialing and dating the bank disbursements ledger.

We recommend the County Clerk immediately implement controls and oversight over the financial activities of her office to ensure errors are prevented or detected in a timely manner.

County Clerk's response: We have implemented new procedures over our financial activities. We have issued keys for the new locks on all our cash drawers. Everyone has their own cash bag with a lock and key. A safe was purchased to keep all our cash. Only the Clerk and the Chief Deputy know the

combination. We have a new bookkeeper and another employee that issues checks and another employee who takes the deposit to the bank.

The County Clerk had \$6,172 in disallowed expenditures. The clerk paid \$5,512 to individuals as contract laborers for office repairs, election duties and other miscellaneous jobs. After reviewing the clerk's records, we found that she did not maintain any supporting documentation and there was no evidence of actual work performed. We also found an additional \$660 of disallowed expenditures that did not have supporting documentation or were for unnecessary items. In *Funk vs. Milliken*, 317 S. W.2d 499 (KY 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature. We recommend the County Clerk only expend fee account monies for allowable purposes and have the proper supporting documentation for each purchase. We also recommend the County Clerk deposit personal funds in the amount of \$6,172 for the disallowed expenditures. This matter has been referred to the Kentucky State Police for further investigation.

County Clerk's response: Referring to the disallowed expenditures – an employee of this office [employee name redacted] has been terminated because she is suspected of writing checks for contract labor without documentation. The recommendation to issue a check in the amount of \$6,172 has been written to the Martin County Fee account for 2011.

The County Clerk did not reconcile bank statements on a monthly basis. The County Clerk did not reconcile all bank statements on a monthly basis. Auditor observed that the 2011 Fee Account was not reconciled timely, the Direct Deposit Account was not reconciled and had unopened bank statements from August 2011 to December 2011, the Usage Tax Account was not reconciled for any month during the year, and the Fish and Game Account was not reconciled for any month during the year. This lack of controls over reconciliations increase the risk that errors may occur and go undetected. We recommend the County Clerk reconcile bank statements monthly to the ledgers and/or financial statements.

County Clerk's response: As of August 2012 all bank accounts are reconciled upon receipt of bank statements each month.

Deposits should be made intact. Deposits are not made intact on a daily basis. Checks received from a current day's transactions are sometimes cashed out of the prior day's bank deposit. Employees do this because there is an adequate amount of cash on hand to make change. As a result, the total deposit matches the daily checkout sheet, however, the actual breakdown of cash, coins, and checks does not agree to the daily checkout sheet. Deposits should reflect the same amount of cash and checks that were collected during a day's transactions. These current practices leave receipts vulnerable to misappropriation or theft and can result in undeposited receipts.

The auditor recommends that each drawer begin the day with an adequate amount of small bills and coins for change. Each Deputy Clerk should monitor their drawer throughout the day. When a shortage of small bills and/or coins is noticed an employee should go to the bank in order to exchange larger bills received through the day for smaller bills and coins.

County Clerk's response: As I stated in recommendation 2011-03 – We all have cash bags with keys and locks new locks on all cash drawers. Each deputy and Clerk maintains \$150 in their cash bags for the day's work. My chief deputy can do the deposit for the previous work day by early morning by having these recommendations in place.

Invoices should be stamped paid or otherwise effectively cancelled to show payment.

During the audit, the auditor observed that, while copies of checks are stapled to their respective invoices, they are not always stamped paid or otherwise effectively cancelled to show payment. It is important to effectively cancel all paid invoices to lessen the chance of making duplicate payments. We recommend that all paid invoices be effectively cancelled to show payment.

County Clerk's response: New paid stamps were purchased and are now being used on invoices as they are paid. The new stamps include dates and check numbers for each payment.

The County Clerk should improve payroll procedures. Our test of payroll revealed employees do not sign time cards at the end of each week. Furthermore, there was no documentation of supervisory review and approval of time cards. Time cards cover one week. At the end of each week, employees should sign (or initial) time cards indicating the accuracy of time reported and the employee's agreement with time reported. A supervisory (or review) employee should sign (or initial) time cards indicating the time cards have been reviewed for accuracy and time worked was approved. We recommend the Clerk improve payroll procedures by having each employee and a supervisory employee sign completed time cards.

County Clerk's response: First I would like to say on my behalf, that we are the only office in our courthouse with a time clock.

The County Clerk's 2012 fee account has undeposited cash receipts. The County Clerk's 2012 Fee Account has undeposited receipts totaling \$16,576. The auditors examined the clerk's 2012 fee account after a phone call from the County Clerk to report cash shortages. Our review of the 2012 account was for the period January 1, 2012 through August 31, 2012 and was not an audit, however, our work for this time period found the following undeposited receipts:

- January 9, 2012 \$5,580
- February 7, 2012 \$5,435
- April 28, 2012 \$3,487
- May 9, 2012 \$ 223
- May 12, 2012 \$ 882
- July 3, 2012 \$ 296
- July 14, 2012 \$ 673

Our review found four checks, which were originally listed on the January 9, 2012 daily checkout sheet, were actually deposited at later dates to cover shortages for those daily deposits. Also, we found a deposit made on April 17, 2012 in the amount of \$5,435. This deposit was presented as reimbursement of the undeposited receipts on February 7, 2012. However, we obtained the deposit detail from the bank and determined the deposit actually consisted of \$4,070 of delinquent tax receipts for April 12, 2012, a \$1,362 License fee receipt for April 16, 2012 business and \$3 in cash

that was used to cover the remaining deposit; therefore no reimbursement was actually made. We recommend the County Clerk immediately implement controls and oversight over the financial activities of her office to ensure errors are prevented or detected in a timely manner. This matter has been referred to the Kentucky State Police for further investigation.

County Clerk's response: In reviewing the shortages on deposits, I had to terminate another employee who confessed to taking deposits from my office. Since this has happened we have new procedures about how the deposits are made explained in recommendation 2011-03.

The county clerk's responsibilities include collecting certain taxes, issuing licenses, maintaining county records and providing other services. The clerk's office is funded through statutory fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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